

**CHARTER OAK-UTE
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Net Assets	G 21
Statement of Cash Flows	H 22
Notes to Financial Statements	23-29
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund	30
Budgetary Comparison Schedule - Budget to GAAP Reconciliation	31
Notes to Required Supplementary Information - Budgetary Reporting	32
Other Supplementary Information:	<u>Schedule</u>
Non-major Governmental Funds:	
Combining Balance Sheet	1 33
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 34
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 35
Schedule of Revenues by Source - All Governmental Funds	4 36
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	37-38
Schedule of Findings	39-40

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

BOARD OF EDUCATION

(Before September, 2004 Election)

Betty Lou Olson	President	2004
Bill Magill	Vice President	2006
Randy Weed		2004
Joanne Seufert		2005
Valeta Pautsch		2006

(After September, 2004 Election)

Betty Lou Olson	President	2007
Bill Magill	Vice President	2006
Dean Staley		2007
Joanne Seufert		2005
Valeta Pautsch		2006

SCHOOL OFFICIALS

Rollie Wiebers	Superintendent
Cathy Carstens	District Secretary /Treasurer

Independent Auditor's Report

To The Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Charter Oak-Ute Community School District, Charter Oak, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Charter Oak-Ute Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 2005 on our consideration of Charter Oak-Ute Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 thru 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Oak-Ute Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Charter Oak-Ute Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- ! General Fund Revenues increased from \$2,608,597 in fiscal year 2004 to \$3,081,956 in fiscal year 2005, while General Fund expenditures increased from \$2,602,762 in fiscal year 2004 to \$2,940,570 in fiscal year 2005.
- ! The increase in revenues can primarily be attributed to revenues created through the dissolution and liquidation of the East Monona Community School District. The Charter Oak-Ute Community School District received 38% of the land of the East Monona Community School District while also receiving 38% of any liquid assets remaining when the district dissolved on June 30, 2004. The additional revenue was generated through the increased state aid and property tax dollars we received due to the additional students and land we received through the dissolution. Over \$87,000 of revenue was added to our general fund through the liquidation process. The increase in expenses was in large part attributed to the increased open enrollment out costs that the district incurred which again are related to the East Monona Community School District dissolution. The general fund balance increased due to cuts in discretionary spending and an increased enrollment in students being served by the district.
- ! The Charter Oak-Ute Community School District collects School Infrastructure Local Option Sales Tax from Crawford and Monona Counties during the year. The amount received increased due to increased enrollment. These funds are being used to finance improvements in the District's infrastructure.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Charter Oak-Ute Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Charter Oak-Ute Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Charter Oak-Ute Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

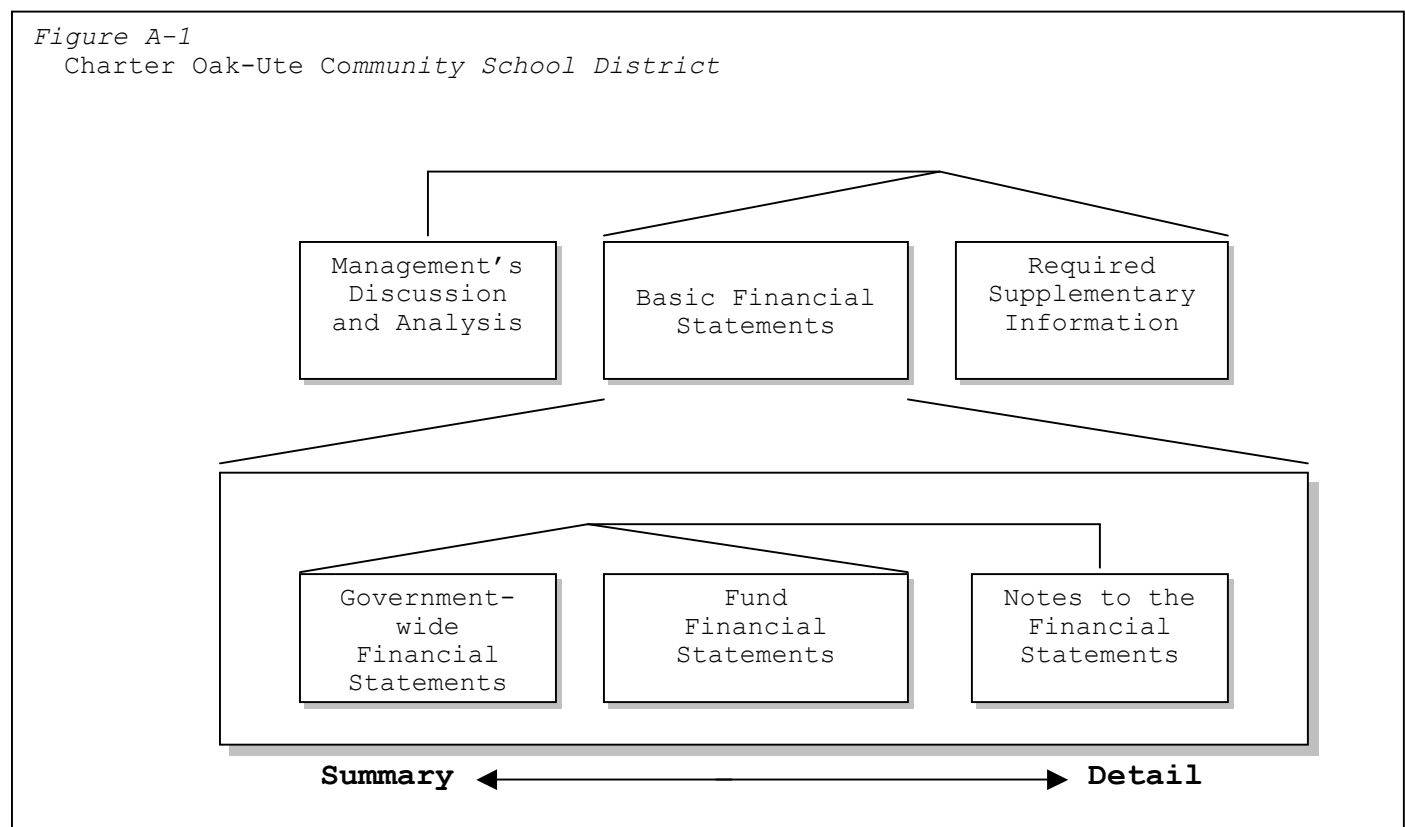


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- ! *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- ! *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	1,968	1,777	7	31	1,975	1,808	9.24%
Capital assets	<u>896</u>	<u>778</u>	<u>-</u>	<u>1</u>	<u>896</u>	<u>779</u>	<u>15.02%</u>
Total assets	<u>2,864</u>	<u>2,555</u>	<u>7</u>	<u>32</u>	<u>2,871</u>	<u>2,587</u>	<u>10.98%</u>
Current liabilities	1,043	1,170	-	-	1,043	1,170	-10.85%
Non-current liabilities	<u>19</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>19</u>	<u>21</u>	<u>0.00%</u>
Total liabilities	<u>1,062</u>	<u>1,191</u>	<u>-</u>	<u>-</u>	<u>1,062</u>	<u>1,191</u>	<u>-10.83%</u>
Net Assets							
Invested in capital assets, net of related debt	896	778	-	1	896	779	15.02%
Restricted	225	145	-	-	225	145	55.17%
Unrestricted	<u>681</u>	<u>441</u>	<u>7</u>	<u>31</u>	<u>688</u>	<u>472</u>	<u>45.76%</u>
Total net assets	<u>1,802</u>	<u>1,364</u>	<u>7</u>	<u>32</u>	<u>1,809</u>	<u>1,396</u>	<u>29.58%</u>

The District's combined net assets increased by over 29%, or approximately \$413,000 over the prior year. The largest portion of the District's net assets is invested in capital assets and cash.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$216,000 or 46%. This increase in unrestricted net assets was a result of the reorganization settlement, increased enrollment, and careful monitoring of expenditures.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	135	60	195
Operating grants, contributions and restricted interest	665	73	738
General revenues:			
Property tax	1,025	-	1,025
Income surtax	251	-	251
Sales tax	145	-	145
Unrestricted state grants	1,296	-	1,296
Unrestricted investment earnings	11	-	11
Other	194	-	194
Total revenues	<u>3,722</u>	<u>133</u>	<u>3,855</u>
Program expenses:			
Governmental activities:			
Instruction	2,272	-	2,272
Support Services	876	-	876
Non-instructional programs	2	158	160
Other expenses	134	-	134
Total expenses	<u>3,284</u>	<u>158</u>	<u>3,442</u>
Change in net assets	<u>438</u>	<u>(25)</u>	<u>413</u>

Property tax and unrestricted state grants account for 60% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses

Governmental Activities

Revenues for governmental activities were \$3,722,334 and expenses were \$3,283,920.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,272	1,584
Support Services	876	872
Non-instructional programs	2	2
Other expenses	<u>134</u>	<u>25</u>
Totals	<u>3,284</u>	<u>2,483</u>

! The cost financed by users of the District's programs was \$134,976.

! Federal and state governments subsidized certain programs with grants and contributions totaling \$665,658.

! The net cost of governmental activities was financed with \$1,025,726 in property and other taxes and \$1,295,732 in unrestricted state grants.

Business-Type Activities

Revenues for business type activities were \$133,035 and expenses were \$158,303. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, the District held meal prices steady. Expenses increased as a result of the Nutrition Fund not being subsidized in part by the General Fund as in past years.

INDIVIDUAL FUND ANALYSIS

As previously noted, Charter Oak-Ute Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

The district's improving General Fund financial position is the result of several factors. Increases in revenues generated through increased enrollment and the funds received through the dissolution of the East Monona Community School District were major factors. The district also carefully monitors discretionary spending to avoid decreased in fund balances. The preservation of the General Fund balance is especially important in light of the fact that the district is now on the 101% Budget Guarantee and future funding will depend more heavily on student enrollment.

The Charter Oak-Ute Community School District's Activity Fund decreased in fiscal year 2005 by approximately \$8,000 due to an increase in costs, less revenue generated through gate receipts and the drama department having an expenditure of \$6,000 for stage lights.

Proprietary Fund Highlights

The School Nutrition Fund cash balance decreased approximately \$18,000 due to increased costs in food products, fewer commodities received and in large part due to all nutrition fund payroll expenses being paid out of this fund and not the general fund.

BUDGETARY HIGHLIGHTS

The District's receipts were \$84,000 more than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving more in federal aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. Expenditures exceeded the budgeted amount in the Other Expenditures function but did not exceed anticipated expenditures as a whole.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$895,883, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 15% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$104,636.

The original cost of the District's capital assets was \$3,154,060. Governmental funds account for \$3,149,206, with the remainder of \$4,854 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building progress category. The District is using its Local Option Sales Tax Funds to do a variety of infrastructure projects throughout the District. The District spent \$51,796 on a new bus during the year.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	1	1	-	-	1	1	0.00%
Buildings	566	518	-	-	566	518	9.27%
Improvements other than buildings	170	107	-	-	170	107	58.88%
Furniture and equipment	159	152	-	1	159	153	3.92%
Totals	896	778	-	1	896	779	15.02%

Long-Term Debt

The District has early retirements and an interest free asbestos loan included in its long-term debt. Early retirements will be paid from the Management Fund as they come due. The asbestos loan was paid off in the fiscal year ending June 30, 2005.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The Charter Oak-Ute Community School District financial improved in fiscal year 2005 primarily due to the increased revenues and enrollment gained from the East Monona Community School District dissolution. Though this event was beneficial to the district, it is only going to be a one time occurrence. Declines in enrollment in future years will have serious consequences as less state aid will be received and bigger burden put on tax money. The increased costs in open enrollment out tuition will be there for years to come as only sixteen students of fifty-six students open enrolled out are currently in high school. Increased costs in salary expenditures and lost revenue from enrollment declines, could also force the district to consider doing away with the practice of maintaining small class section sizes at the elementary and Junior High grade levels. The district also relies on special state and federal funding sources to fund teacher salaries and cuts in these funding sources would have serious negative consequences for the district.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rollie Wiebers, Superintendent, Charter Oak-Ute Community School District, 321 Main Street, Charter Oak, IA 51439.

Basic Financial Statements

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash	719,244	1,980	721,224
Receivables:			
Property tax:			
Current year	23,306	-	23,306
Succeeding year	1,023,994	-	1,023,994
Income surtax - succeeding year	118,521	-	118,521
Due from other governments	65,538	-	65,538
Inventories	17,503	5,218	22,721
Capital assets, net of accumulated depreciation	895,883	93	895,976
Total assets	2,863,989	7,291	2,871,280
Liabilities			
Accrued salaries and benefits	18,556	-	18,556
Deferred revenue:			
Succeeding year property tax	1,023,994	-	1,023,994
Long-term liabilities:			
Portion due within one year:			
Early retirement payable (note 9)	6,620	-	6,620
Portion due after one year:			
Early retirement payable (note 9)	12,442	-	12,442
Total liabilities	1,061,612	-	1,061,612
Net assets			
Invested in capital assets	895,883	93	895,976
Restricted for:			
Management	13,980	-	13,980
Physical Plant and Equipment Levy	59,979	-	59,979
Capital Projects	151,004	-	151,004
Unrestricted	681,531	7,198	688,729
Total net assets	1,802,377	7,291	1,809,668

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
		Operating Grants, Contributions and Restricted Interest			Governmental Activities	Business-Type Activities
	Expenses	Charges for Service				Total
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	1,519,866	64,941	164,692	(1,290,233)	-	(1,290,233)
Special instruction	421,690	70,035	251,330	(100,325)	-	(100,325)
Other instruction	330,519	-	136,399	(194,120)	-	(194,120)
	<u>2,272,075</u>	<u>134,976</u>	<u>552,421</u>	<u>(1,584,678)</u>	<u>-</u>	<u>(1,584,678)</u>
Support services:						
Student services	61,109	-	2,750	(58,359)	-	(58,359)
Instructional staff services	1,334	-	-	(1,334)	-	(1,334)
Administration services	314,724	-	-	(314,724)	-	(314,724)
Operation and maintenance of plant services	276,644	-	1,452	(275,192)	-	(275,192)
Transportation services	222,188	-	-	(222,188)	-	(222,188)
	<u>875,999</u>	<u>-</u>	<u>4,202</u>	<u>(871,797)</u>	<u>-</u>	<u>(871,797)</u>
Noninstructional programs:						
Food service operations	1,856	-	-	(1,856)	-	(1,856)
Other expenditures:						
Facilities acquisition and construction services	3,297		2,569	(728)	-	(728)
AEA flowthrough	106,466		106,466	-	-	-
Depreciation (unallocated) *	24,227	-	-	(24,227)	-	(24,227)
	<u>133,990</u>	<u>-</u>	<u>109,035</u>	<u>(24,955)</u>	<u>-</u>	<u>(24,955)</u>
Total governmental activities	3,283,920	134,976	665,658	(2,483,286)	-	(2,483,286)

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business-Type
Expenses	Service		Activities	Activities	Total
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	158,303	60,358	72,677	-	(25,268)
					(25,268)
Total	3,442,223	195,334	738,335	(2,483,286)	(25,268)
					(2,508,554)
General revenues:					
Property tax levied for:					
General purposes			923,207	-	923,207
Management fund			54,959	-	54,959
Capital outlay			47,560	-	47,560
Income surtax levied for:					
Instructional support			148,007	-	148,007
Capital outlay			103,207	-	103,207
Sales tax collected for:					
Capital outlay			144,714	-	144,714
Unrestricted state grants			1,295,732	-	1,295,732
Unrestricted investment earnings			10,394	-	10,394
Reorganization settlements			170,618	113	170,731
Other			23,302	-	23,302
Total general revenue			2,921,700	113	2,921,813
Change in net assets			438,414	(25,155)	413,259
Net assets beginning of year			1,363,963	32,446	1,396,409
Net assets end of year			1,802,377	7,291	1,809,668

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Assets				
Cash	482,968	138,432	97,844	719,244
Receivables:				
Property tax:				
Current year	20,970	-	2,336	23,306
Succeeding year	933,075	-	90,919	1,023,994
Income surtax - succeeding year	69,718	-	48,803	118,521
Due from other governments	52,966	12,572	-	65,538
Inventory	17,503	-	-	17,503
Total assets	<u>1,577,200</u>	<u>151,004</u>	<u>239,902</u>	<u>1,968,106</u>
Liabilities and Fund Balances				
Liabilities:				
Accrued salaries and benefits	18,556	-	-	18,556
Deferred revenue:				
Succeeding year property tax	933,075	-	90,919	1,023,994
Succeeding year income surtax	69,718	-	48,803	118,521
Total liabilities	<u>1,021,349</u>	<u>-</u>	<u>139,722</u>	<u>1,161,071</u>
Fund balances:				
Unreserved	555,851	151,004	100,180	807,035
Total fund balance	<u>555,851</u>	<u>151,004</u>	<u>100,180</u>	<u>807,035</u>
Total liabilities and fund balances	<u>1,577,200</u>	<u>151,004</u>	<u>239,902</u>	<u>1,968,106</u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 807,035
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	895,883
Income surtax receivable is fiscal year 2005 revenue and is recognized in the accrual financial statements. However, it is not recognized in the fund financial statements prepared on the modified accrual basis	118,521
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds	<u>(19,062)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,802,377</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2005

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources				
Local tax	1,001,496	144,714	156,923	1,303,133
Tuition	134,976	-	-	134,976
Other	36,178	2,569	132,365	171,112
State sources	1,568,117	-	97	1,568,214
Federal sources	255,760	-	-	255,760
Total revenues	<u>2,996,527</u>	<u>147,283</u>	<u>289,385</u>	<u>3,433,195</u>
Expenditures:				
Instruction				
Regular instruction	1,496,237	-	18,997	1,515,234
Special instruction	438,354	-	-	438,354
Other instruction	190,583	-	139,936	330,519
	<u>2,125,174</u>	<u>-</u>	<u>158,933</u>	<u>2,284,107</u>
Support services				
Student services	61,109	-	-	61,109
Instructional staff services	1,334	-	-	1,334
Administration services	290,409	-	24,315	314,724
Operation and maintenance of plant services	207,499	-	55,824	263,323
Transportation services	152,844	-	68,952	221,796
	<u>713,195</u>	<u>-</u>	<u>149,091</u>	<u>862,286</u>
Noninstructional programs:				
Food service operations	<u>1,142</u>	<u>-</u>	<u>714</u>	<u>1,856</u>
Other expenditures				
Long-term debt:				
Principal	-	-	6,364	6,364
Facilities acquisition and construction services	-	137,851	4,665	142,516
AEA flowthrough	106,466	-	-	106,466
	<u>106,466</u>	<u>137,851</u>	<u>11,029</u>	<u>255,346</u>
Total expenditures	<u>2,945,977</u>	<u>137,851</u>	<u>319,767</u>	<u>3,403,595</u>

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2005

	General	Capital Projects	Non-major Governmental	Total
	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>50,550</u>	<u>9,432</u>	<u>(30,382)</u>	<u>29,600</u>
Other financing sources(uses):				
Operating transfers in	-	-	6,364	6,364
Operating transfers out	(6,364)	-	-	(6,364)
Reorganization settlements	<u>85,429</u>	<u>70,464</u>	<u>14,725</u>	<u>170,618</u>
	<u>79,065</u>	<u>70,464</u>	<u>21,089</u>	<u>170,618</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	129,615	79,896	(9,293)	200,218
Fund balances beginning of year	<u>426,236</u>	<u>71,108</u>	<u>109,473</u>	<u>606,817</u>
Fund balances end of year	<u><u>555,851</u></u>	<u><u>151,004</u></u>	<u><u>100,180</u></u>	<u><u>807,035</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 200,218

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable is fiscal year 2005 revenue and is recognized in the accrual financial statements. However, it is not recognized in the fund financial statements prepared on the modified accrual basis 118,521

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 222,579	
Depreciation expense	<u>(104,636)</u>	117,943

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceed repayments, as follows:

Issued (early retirement benefits)	(9,312)	
Repayments	<u>11,044</u>	<u>1,732</u>

Change in net assets of governmental activities (Exhibit B) \$ 438,414

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>60,358</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	58,013
Benefits	7,397
Services	1,513
Supplies	81,133
Property	9,840
Depreciation	<u>407</u>
Total operating expenses	<u>158,303</u>
Operating (loss)	<u>(97,945)</u>
Non-operating revenues:	
Interest on investments	125
Reorganization settlement	113
State sources	2,040
Federal sources	<u>70,512</u>
	<u>72,790</u>
Change in net assets	(25,155)
Net assets beginning of year	<u>32,446</u>
Net assets end of year	<u><u>7,291</u></u>

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	60,358
Cash payments to employees for services	(65,410)
Cash payments to suppliers for goods or services	(76,963)
Net cash provided by (used in) operating activities	(82,015)
Cash flows from non-capital financing activities:	
State grants received	2,040
Federal grants received	61,679
Reorganization settlement	113
Net cash provided by non-capital financing activities	63,832
Cash flows from investing activities:	
Interest on investments	125
Net increase in cash and cash equivalents	(18,058)
Cash and cash equivalents beginning of year	20,038
Cash and cash equivalents end of year	1,980
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating income (loss)	(97,945)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	407
Commodities used	8,833
Decrease in inventory	6,690
	(82,015)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	1,980
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2005, the District received federal commodities valued at \$8,833.

See notes to financial statements.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Charter Oak-Ute Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Charter Oak and Ute, Iowa, and agricultural area in Monona and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Charter Oak-Ute Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Charter Oak-Ute Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Monona and Crawford County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds as well as for infrastructure construction projects. It is funded through a one cent sales tax.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable- Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Accrued Salaries and Benefits - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amount budgeted in the Other Expenditures function during the year ending June 30, 2005.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) **Capital Assets**

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	1,247	-	-	1,247
Capital assets being depreciated:				
Buildings	1,221,653	67,768	-	1,289,421
Improvements other than buildings	187,973	71,451	-	259,424
Furniture and Equipment	1,515,754	83,360	-	1,599,114
Total capital assets being depreciated	2,925,380	222,579	-	3,147,959
Less accumulated depreciation for:				
Buildings	704,114	19,442	-	723,556
Improvements other than buildings	80,918	8,779	-	89,697
Furniture and Equipment	1,363,655	76,415	-	1,440,070
Total accumulated depreciation	2,148,687	104,636	-	2,253,323
Total capital assets being depreciated, net	776,693	117,943	-	894,636
Governmental activities, capital assets, net	777,940	117,943	-	895,883

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	4,854	0	-	4,854
Less accumulated depreciation	<u>4,354</u>	<u>407</u>	<u>-</u>	<u>4,761</u>
Business type activities capital assets, net	<u>500</u>	<u>(407)</u>	<u>-</u>	<u>93</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Operation and maintenance of plant

Transportation

Unallocated

28,221

52,188

24,227

104,636

Business Type activities

Food service operations

407

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$97,492, \$94,029, and \$86,403 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$106,466 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Charter Oak-Ute Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) East Monona Community School District Dissolution

As of June 30, 2004, the East Monona Community School District dissolved with remaining funds and property being allocated among neighboring districts. The Charter Oak-Ute Community School District received a total of \$170,731 in various funds during the year ending June 30, 2005.

(8) Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	<u>Early Retirement</u>	<u>Asbestos Loan</u>	<u>Total</u>
Balance beginning of year	\$14,430	6,364	20,794
Additions	9,312	-	9,312
Reductions	<u>4,680</u>	<u>6,364</u>	<u>11,044</u>
Balance end of year	<u>\$19,062</u>	<u>-</u>	<u>19,062</u>

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-seven and less than sixty-two years of age and employees must have completed at least twenty years of consecutive service to the District. Employees must complete an application for early retirement which must be accompanied by the employee's written resignation. Such resignations are conditional upon acceptance by the Board of the employee for the early retirement program. The District will pay \$75 of the monthly premium for the single or family health and major medical insurance coverage. An employee who is granted early retirement benefits shall also be entitled up to \$120 per month to put towards the coverage of the individual's health insurance provided by the District's insurance carrier; this is based upon \$1.00 for each unused sick leave day up to 120 days. The retiree shall be notified of termination of benefits upon reaching age of sixty-five, death, or failure to make payment.

Early retirement benefits paid during the year ended June 30, 2004, totaled \$4,680. A liability has been recorded representing the District's commitment to fund early retirement costs.

Asbestos Loan

The District obtained a Federal loan for the purpose of asbestos removal. The loan is repayable in semi-annual installments of \$1,000.00 and bears no interest. The loan was paid in full during the year ending June 30, 2005.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	<u>\$6,364</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,613,497	60,596	1,674,093	1,652,524	1,652,524	21,569
State sources	1,568,214	2,040	1,570,254	1,585,565	1,585,565	(15,311)
Federal sources	255,760	61,679	317,439	240,000	240,000	77,439
Total receipts	3,437,471	124,315	3,561,786	3,478,089	3,478,089	83,697
Disbursements:						
Instruction	2,272,333	-	2,272,333	2,553,000	2,553,000	280,667
Support services	862,286	-	862,286	989,144	989,144	126,858
Non-instructional programs	1,856	142,373	144,229	155,669	155,669	11,440
Other expenditures	255,346	-	255,346	217,797	217,797	(37,549)
Total disbursements	3,391,821	142,373	3,534,194	3,915,610	3,915,610	381,416
Excess (deficiency) of receipts over (under) disbursements	45,650	(18,058)	27,592	(437,521)	(437,521)	465,113
Other financing sources (uses)	170,618	-	170,618	2,000	2,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	216,268	(18,058)	198,210	(435,521)	(435,521)	465,113
Balance beginning of year	502,976	20,038	523,014	600,866	600,866	(77,852)
Balance end of year	719,244	1,980	721,224	165,345	165,345	387,261

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	3,437,471	(4,276)	3,433,195
Expenditures	3,391,821	11,774	3,403,595
Net	45,650	(16,050)	29,600
Other financing sources (uses)	170,618	-	170,618
Beginning fund balances	502,976	(103,841)	606,817
Ending fund balances	719,244	(119,891)	807,035

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	124,315	8,833	133,148
Expenditures	142,373	15,930	158,303
Net	(18,058)	(7,097)	(25,155)
Beginning fund balances	20,038	12,408	32,446
Ending fund balances	1,980	5,311	7,291

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the other expenditures function exceeded the amount budgeted. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Governmental Funds

June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	12,728	26,221	58,895	97,844
Property tax receivable:				
Current year	1,252	-	1,084	2,336
Succeeding year	55,303	-	35,616	90,919
Income surtax - succeeding year	-	-	48,803	48,803
	<u>69,283</u>	<u>26,221</u>	<u>144,398</u>	<u>239,902</u>
Total assets	<u>69,283</u>	<u>26,221</u>	<u>144,398</u>	<u>239,902</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	55,303	-	35,616	90,919
Succeeding year income surtax	-	-	48,803	48,803
	<u>55,303</u>	<u>-</u>	<u>84,419</u>	<u>139,722</u>
Fund equity:				
Unreserved fund balance	<u>13,980</u>	<u>26,221</u>	<u>59,979</u>	<u>100,180</u>
Total liabilities and fund equity	<u>69,283</u>	<u>26,221</u>	<u>144,398</u>	<u>239,902</u>

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Governmental Funds

Year ended June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Debt Service	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	54,959	-	101,964	-	156,923
Other	712	131,010	643	-	132,365
State sources	52	-	45	-	97
Federal sources	-	-	-	-	-
Total revenues	55,723	131,010	102,652	-	289,385
Expenditures:					
Instruction:					
Regular instruction	18,997	-	-	-	18,997
Co-curricular instruction	-	139,936	-	-	139,936
Support services:					
Administration services	3,016	-	21,299	-	24,315
Plant operation and maintenance	25,231	-	30,593	-	55,824
Student Transportation	9,656	-	59,296	-	68,952
Non-instructional programs:					
Food service operations	714	-	-	-	714
Other expenditures:					
Long-term debt:					
Principal	-	-	-	6,364	6,364
Facilities acquisition and construction services	-	-	4,665	-	4,665
Total expenditures	57,614	139,936	115,853	6,364	319,767
Excess (deficiency) of revenues over (under) expenditures	(1,891)	(8,926)	(13,201)	(6,364)	(30,382)
Other financing sources (uses):					
Reorganization settlement	-	-	14,725	-	14,725
Operating transfers in	-	-	-	6,364	6,364
	-	-	14,725	6,364	21,089
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,891)	(8,926)	1,524	-	(9,293)
Fund balances beginning of year	15,871	35,147	58,455	-	109,473
Fund balances end of year	13,980	26,221	59,979	-	100,180

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama Club	7,837	783	6,221	2,399
Band/Vocal Programs	-	1,305	958	347
Band	-	660	660	-
Band Uniform Account	1,421	-	1,421	-
Popcorn Fund	-	2,154	2,154	-
Vending Machine/Pop - Charter Oak	-	11,894	11,894	-
Vending Machine/Candy - Charter Oak	-	24	24	-
Elementary Stand	-	1,755	1,755	-
Vending Machine/Pop - Ute	-	2,066	2,066	-
Basketball - Boys/Girls	3,932	15,745	17,436	2,241
Track - Boys/Girls	-	2,136	2,136	-
Football	223	5,953	6,176	-
Baseball	-	3,666	3,666	-
Volleyball	1,400	3,664	4,671	393
Softball	-	7,313	7,313	-
Coaches Concession	-	1,600	1,600	-
Annual	1,094	10,290	9,114	2,270
Newspaper	920	-	253	667
Spanish Club	1,108	1,238	640	1,706
Pep Club	2,825	2,269	2,886	2,208
FFA National Convention	1,459	1,272	2,556	175
FFA Fund	2,713	15,707	15,978	2,442
Student Council Sr High	1,817	7,768	8,396	1,189
Jr High Fund	-	64	64	-
Class of 2007	2,055	1,026	1,076	2,005
Class of 2006	1,370	20,637	18,365	3,642
Class of 2008	728	1,520	1,145	1,103
Class of 2009	1,331	1,168	837	1,662
Class of 2010	-	2,917	2,111	806
Class of 2005	2,914	1,435	4,349	-
Class of 2011	-	2,125	1,159	966
Interest	-	510	510	-
Odyssey of the Mind	-	346	346	-
Total	35,147	131,010	139,936	26,221

See accompanying independent auditor's report.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source

All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
Property tax	1,025,726	1,004,649	926,121	937,021
Income surtax	132,694	105,771	104,885	111,278
School Infrastructure Local Option Sales Tax	144,714	64,545	45,802	38,610
	<u>1,303,134</u>	<u>1,174,965</u>	<u>1,076,808</u>	<u>1,086,909</u>
State sources:				
State foundation aid	1,294,863	865,758	929,660	815,286
School improvement and technology funding	-	-	-	6,209
Instructional support state aid	12,686	9,445	10,443	9,843
Shelter Care/Juvenile Home Aid	7,965	7,772	9,730	-
Education Excellence Program:				
Phase I	48,772	43,051	48,772	48,772
Phase II	30,207	29,692	25,799	24,821
Phase III	-	-	6,410	14,184
Teacher mentoring	5,200	9,100	7,800	2,600
Teacher compensation	34,403	26,951	23,886	23,071
Vocational education aid	5,389	4,440	4,724	3,249
Iowa Early Intervention Block Grant	20,297	21,328	22,581	21,041
Revenue in lieu of taxes - military credit	948	725	754	455
AEA flow-through	106,466	85,829	97,235	92,275
Evaluator training	1,000	-	2,000	-
	<u>1,568,196</u>	<u>1,104,091</u>	<u>1,189,794</u>	<u>1,061,806</u>
Federal sources:				
Title I Grants to Local Educational Agencies	81,720	50,585	50,125	53,529
Safe and Drug Free Schools and Communities	2,750	1,884	2,560	1,057
Vocational Education - Basic Grants to States	-	510	-	-
Special Education - Basic Grants to States	19,256	12,790	9,379	-
Innovative Education Program Strategies	1,680	4,633	-	2,359
Class Size Reduction	-	-	-	10,930
Improving Teacher Quality - Grants to States	19,850	14,977	17,465	-
Rural Education Achievement Program	26,451	25,668	24,769	-
Star Schools	-	-	7,930	26,821
Grants for Assessments and Related Activities	1,806	3,410	-	-
Title XIX Assistance	-	30,786	-	-
Fire Safety Grant	-	46,463	-	-
Reading First	99,447	99,447	-	-
Other	2,800	-	1,007	772
	<u>255,760</u>	<u>291,153</u>	<u>113,235</u>	<u>95,468</u>
Total	<u>3,127,090</u>	<u>2,570,209</u>	<u>2,379,837</u>	<u>2,244,183</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Charter Oak-Ute Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Charter Oak-Ute Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Oak-Ute Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Oak-Ute Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances on non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Charter Oak-Ute Community School District and other parties to whom Charter Oak-Ute Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Charter Oak-Ute Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 12, 2005

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the certified budget amounts in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

CHARTER OAK-UTE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-II-E Business Transactions - No business transactions between the District and District officials were noted.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.